

Report of the Directors

Including the statement of remuneration policy for the year ended 31 July 2006

The Directors submit their annual report and the audited consolidated accounts of the Company and its subsidiaries for the year ended 31 July 2006.

Principal activities and business review

Wolseley plc is a holding company; its subsidiaries are organised into two geographical divisions which are set out on pages 25 to 32. The principal activities of the Group are the distribution of plumbing and bathroom materials, central heating and air conditioning equipment and pipes, valves and fittings within Europe and North America. Additionally in the UK, Ireland and France, it distributes heavyside building materials, whilst in the USA, the Group distributes timber and other building materials, as well as supplying other construction services. In the UK, France and Austria, it operates tool hire centres and, in the UK, France and USA, it also distributes electrical components and supplies.

Details of the development of the Group's businesses during the year and information which fulfils the requirements of the Business Review (as required by the Companies Act 1985 (Operating and Financial Review and Directors' Report Regulations 2005)), are given in the Performance review on pages 20 to 41 and in the Group Chief Executive's review on pages 8 to 19, which are incorporated in this report by reference.

Results and dividends

The Group's consolidated income statement, set out on page 72, shows an increase of 18.8% in Group operating profit from £702 million (restated under IFRS) in 2005 to £834 million. An analysis of revenue and operating profit is given on page 82 in note 2 to the accounts. Shareholders were paid the 2006 interim dividend of 9.85 pence per share (2005: 8.8 pence) on 31 May 2006. The Directors recommend a final dividend of 19.55 pence per share (2005: 17.6 pence) making a total dividend for the year of 29.4 pence per ordinary share, an increase of 11.4% on the 26.4 pence paid in respect of last year. Payment of the recommended final dividend, if approved at the Annual General Meeting, will be made on 30 November 2006 to shareholders registered at the close of business on 6 October 2006.

On 24 July 2006 the Group entered into an agreement, conditional on regulatory approval, to acquire DT Group, the Nordic region's leading distributor of building materials for cash consideration of €1,498 million together with the assumption of the indebtedness of DT Group. Regulatory approval has now been received and it is anticipated that the acquisition will complete on 25 September 2006.

On 25 September 2006, a placing of approximately 10% of the Company's issued ordinary share capital was undertaken to raise approximately £650 million. The placing will reduce the debt which has built up as a result of the £914 million of acquisitions in 2006 and the £1.35 billion acquisition of DT Group. The placing will also restore the Group's financial flexibility to enable it to continue to pursue its strategy of organic and acquisitive growth.

There have been no other significant post balance sheet events.

The Wolseley plc 2004 Overseas Employee Benefit Trust, the Wolseley plc 2004 Employee Benefit Trust and the Wolseley plc 2004 Directors Benefit Trust were established on 5 October 2004 in connection with the Wolseley Share Option Plan 2003 and the Wolseley plc 2002 Long Term Incentive Scheme, details of which are set out in the remuneration report on pages 64 to 67. The trustees of each of the trusts have waived their rights to receive dividends on any shares held by them. Following purchases of shares in the capital of the Company made between November 2004 and April 2006, the trustees of the Wolseley plc 2004 Employee Benefit Trust hold 4,011,478 ordinary shares in the capital of the Company. The average purchase price was 1247.36 pence per share excluding dealing costs. The amount of dividends waived in respect of the year ended 31 July 2006 was £300,425 (2005: £176,000). The Directors of Wolseley QUEST Limited have also waived their right to receive dividends on any shares held by that company under the Wolseley Employees Savings Related Share Option Scheme 1981. For the year ended 31 July 2006, Wolseley QUEST Limited held no shares and no such dividend waiver was required (2005: £0)

The Company's dividend reinvestment plan will continue to be available to eligible shareholders. Shareholders who do not currently participate in the plan and wish to do so can obtain an application form and explanatory booklet from the Company's registrars, Lloyds TSB Registrars. Contact details for the Registrars are shown on page 147. The latest date for receipt of new applications to participate in respect of the 2006 final dividend is 9 November 2006.

Acquisitions and disposals

Details of acquisitions made during the year are contained in the Performance review on page 23 and in note 31 on page 110. There were no disposals of businesses during the year.

Future development

It remains your Board's intention to develop the Group through organic growth and by selective acquisitions.

Share capital

At the date of this report, 657,210,884 ordinary shares of 25 pence each have been issued and are fully paid up and are quoted on the London Stock Exchange. In addition, the Company has entered into a level II American Depository Receipt programme with the Bank of New York, under which the Company's shares are traded in the form of American Depository Shares on the New York Stock Exchange. During the year ended 31 July 2006, options were exercised pursuant to the Company's share option schemes, resulting in the allotment of 5,553,785 new ordinary shares. A further 14,668 new ordinary shares have been allotted under these schemes since the end of the financial year to the date of this report. Details of these issues including, where appropriate, the amounts subscribed for new shares are set out in note 28 to the accounts on page 106, which also contains details of options granted over unissued capital.

The Directors propose (Resolution 10 in the Notice of Meeting set out on pages 149 to 152) to renew the authority granted to them at the Annual General Meeting held in 2005 to allot equity shares up to an aggregate nominal value of £35,697,279 (representing the authorised but unissued ordinary share capital at the date of this report) (the "section 80 authority"). If approved at the forthcoming Annual General Meeting, the authority will expire no later than 15 months from the date on which the resolution is passed, or at the conclusion of the Annual General Meeting to be held in 2007, whichever is the sooner.

The limited power granted to the Directors at last year's Annual General Meeting to allot equity shares for cash other than pro rata to existing shareholders expires no later than 17 February 2007. Subject to the terms of the section 80 authority, your Directors recommend (Resolution 11 in the Notice of Meeting) that this authority should be renewed so as to give them the ability (until the Annual General Meeting to be held in 2007) to issue ordinary shares for cash, other than pro rata to existing shareholders, in connection with a rights issue or up to a limit of 5% of the ordinary share capital issued at the date of this report. Your Directors have no present intention to issue ordinary shares, other than pursuant to the Company's employee share schemes and any share dividend alternatives. The Directors recommend that you vote in favour of Resolutions 10 and 11 to maintain the Company's flexibility in relation to future share issues, including any issues to finance business opportunities should appropriate circumstances arise.

A Special Resolution will also be proposed (Resolution 12 in the Notice of Meeting) to renew the Directors' limited authority last granted in 2005 to repurchase ordinary shares in the market. The authority will be limited to a maximum of 65,721,088 ordinary shares (being 10% of the Company's issued share capital at the date of this report) and also sets the minimum and maximum prices which may be paid. This authority will enable your Directors to continue to respond promptly should circumstances arise in which they consider such a purchase would result in an increase in earnings per share and would be in the best interests of the Company.

The Companies (Acquisition of Own Shares) (Treasury Shares) Regulations 2003 allow shares repurchased by the Company to be held as treasury shares that may be cancelled, sold for cash or used for the purpose of employee share schemes. The Company holds no shares in treasury but the Directors currently intend that any shares which are repurchased will be held in treasury. The authorities to be sought by each of Resolutions 11 and 12 are intended to apply equally to shares to be held by the Company as treasury shares and to the sale of treasury shares. The Directors consider it desirable for these general authorisations to be available to provide flexibility in the management of the Company's capital resources.

Substantial share interests

The following interests of 3% or more in the Company's issued ordinary share capital appeared in the register maintained under the provisions of section 211 of the Companies Act 1985:

Name	%
Lloyds TSB Group plc	4.126
Barclays plc	3.020
Legal & General Investment Management Limited	3.000

Directors

Brief particulars of the Directors in office at the date of this report are listed on pages 42 and 43 and further details of the Board composition are contained in the Corporate governance report. The Directors standing for re-election at the Annual General Meeting are Gareth Davis, Fenton Hord and Nigel Stein. Each Director, being eligible, offers himself for re-election and each, following a performance evaluation during the year, continues to be effective and demonstrates commitment to their respective roles. It is the view of the Board that Messrs Davis and Stein each bring considerable management experience and independent perspective to the Board's discussions and both are considered to be independent of management and free from any relationship or circumstance that could affect, or appear to affect, the exercise of their independent judgement. In addition, Frank Roach, who joined the Board as an Executive Director on 16 December 2005, will stand for election.

Directors' interests in shares

The register kept by the Company pursuant to section 325 of the Companies Act 1985 shows that the Directors in office at 31 July 2006 and their families had the following interests in the ordinary shares of the Company.

	31 July 2006	1 August 2005 (or on appointment)
C A Banks	212,267	200,137
G Davis	10,664	10,664
A J Duff	3,993	3,993
F N Hord	91,470	83,179
C A S Hornsby	57,709	48,017
R H Marchbank	26,462	12,802
J I K Murray	5,000	5,000
F W Roach	27,248	26,970
N M Stein	4,500	2,500
R M Walker	2,208	2,160
S P Webster	50,220	38,205
J W Whybrow	45,284	45,284

There were no changes to the shareholdings of those Directors in office at the date of this report between 1 August 2006 and 25 September 2006.